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Expert Meeting on Investment Promotion
and Development Objectives
Geneva, 24-26 September 1997
Agenda item 3

INVESTMENT PROMOTION AND SUGGESTED MEASURES TO FURTHER DEVELOPMENT OBJECTIVES

Agreed conclusions 1/

1. The Expert Meeting reviewed country and regional experiences in investment promotion. While the focus of most investment promotion efforts are on attracting FDI, the promotion of outward investment has become more prominent in recent years. The discussions therefore centred on the promotion of both inward and outward FDI. There was also a lively exchange of views on the role of incentives in investment promotion.

2. The Expert Meeting benefited from contributions of specialists from both the public and the private sectors and, particularly, from members of the World Association of Investment Promotion Agencies (WAIPA). The Expert Meeting welcomed the panel discussion with international investors.

1/ As adopted by the Expert Meeting at its closing plenary meeting on 26 September 1997.

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3. The background to the discussion of the Expert Meeting was the growing importance of FDI. Over the past decade, many countries have liberalised the policy environment and legal framework in favour of foreign direct investment. Although worldwide FDI flows have expanded, including flows to developing regions, much of it is concentrated in a small number of countries. For many Governments, the level of FDI inflows does not meet expectations. With investment policy regimes becoming increasingly open, countries find that they need to undertake additional promotional efforts to attract inflows of the desired level and of a kind consonant with their development objectives.

4. With regard to the promotion of inward FDI, experts noted that the more successful investment promotion programmes target specific types of investors. Targeting involves a number of choices revolving around industries, firms and activities, and home countries. It requires extensive research to identify firms that are likely candidates to invest in the country and ways in which those investments can be made to meet investor needs and development objectives. If done well, targeting can identify new investment opportunities arising from the spread of integrated international production, such as functional niches for developing countries in fields such as accounting, data processing and the programming of software applications. Targeting can also help in identifying foreign firms which might complement domestic firms through backward and forward linkages, thereby strengthening national technological capabilities and production capacities.

5. Experts noted that some developing countries, particularly least developed countries, need to develop their markets, greater stability and enhanced skills to attract foreign investors. If a country is poor and underdeveloped, it is important to focus on long-term potentials and relate these to current investment opportunities. A large population is both a source of abundant labour and a future market (which is ranked by investors as the most important locational advantage a country can offer). A small population need not mean a small market if seen in a regional context or as an export platform, but it may mean allocating greater priority to education and training than in other countries. Weak infrastructure is an impediment to investment in manufacturing but it can also be an attractive opportunity for the international infrastructure industry. All countries have specific locational advantages of some kind that can be developed and marketed.

6. With regard to the promotion of outward FDI, experts noted that the measures used by host countries to attract investors are often compatible with the measures available to home countries to encourage their firms to invest abroad. These measures include the dissemination of information; the establishment of investor facilitation centres; and the offering of a variety of incentives and guarantees to compensate for non-business risks and uncertainty. The experts recommended greater

cooperation among inward and outward promotion agencies. Recognizing that outward promotion functions are often shared among multiple home country institutions, the experts suggested that lead organizations dealing with outward investment promotion in OECD member countries, as well as in other countries, be identified. This procedure would allow countries wishing to attract investment to be able to address themselves to a single body capable of guiding them in their search for potential investors.

7. With regard to the role of incentives, experts noted that the pros and cons of incentives for inward investment have never been conclusive and are unlikely ever to be so. There have been some spectacular successes as well as notable failures; the outcome has often depended on the interaction of a host of complex factors. That said, many experts, particularly practitioners from investment promotion agencies, held that incentives remain an important policy variable in the development strategies of host countries. Of course, the most important incentive is the removal of disincentives and other impediments to inward investment. Moreover, it was widely agreed that financial grants are more costly than fiscal and other incentives.

8. The granting of preferential access to external markets, through bilateral, regional and international agreements, would greatly enhance the investment promotion efforts of developing countries, particularly smaller economies, as a minimum market size is an important prerequisite for many investors.

UNCTAD

9. UNCTAD is requested to establish a new system of classification of FDI recipient countries for analytical purposes and which should be based not solely on the amount of FDI, but also on a set of different criteria, namely the level of FDI, the exports derived from FDI, the added value and the transfer of technology achieved, etc. In the same spirit, UNCTAD should elaborate, to the extent possible, a methodology allowing for a standardized statistical disaggregation of FDI. Hence, an inventory of accomplishments achieved in this area in a certain number of countries should be made widely available.

10. UNCTAD should prepare a directory of institutions and programmes of home countries that support outward investment, particularly to developing countries. This should be carried out utilizing existing data sources and be periodically updated.

11. UNCTAD should strengthen its analytical capacity to assess the impact of FDI in the development objectives of developing countries.

12. UNCTAD should provide technical assistance, particularly advisory services and training, in the following areas:

(i) Identification of impediments to inward investment;
(ii) Elaboration and formulation of investment promotion strategies;
(iii) Investor targeting;
(iv) Establishment and development of industrial zones and sites;
(v) Establishment of information systems for investment promotion.

13. UNCTAD, through its technical assistance programme, should examine how host countries can employ incentives more efficiently and, upon request, assist them in the cost-benefit assessment of their incentive schemes.

14. UNCTAD should continue to facilitate the exchange of national and regional experiences and best practices on investment promotion, including through the auspices of WAIPA. Other concerned organizations, particularly UNIDO and MIGA, are invited, each in its own field of competence, to join this initiative.